

Global Credit Research - 30 Sep 2010

London, 30 September 2010 -- Moody's Investors Service has today upgraded the rating of the Black Sea Trade & Development Bank (BSTDB) to A3 from Baa1. The outlook was revised to stable from positive following the upgrade.

SUMMARY

The main reasons for BSTDB's upgrade to A3 are:

1. The resilience of the Bank's asset quality, liquidity and profitability despite the very difficult environment in the Black Sea region during the global crisis.
2. Strong shareholder support, as reflected by an agreement among the Bank's shareholders to triple the Bank's authorized capital, and double its subscribed capital, which is currently being implemented.

RATINGS RATIONALE

The BSTDB was placed on positive outlook in December 2007 ahead of a planned increase in capital. The Bank's shareholders (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine) subsequently agreed to a SDR 2.0 billion capital increase in authorized capital in October 2008, of which SDR 1.0 billion was offered to and subscribed by the Member States, bringing total authorized and subscribed capital to SDR 3.0 billion and SDR 2.0 billion, respectively, in October 2008. However, this was at the height of the global financial crisis, and given the economic downturn in the region as well as concerns over potential deterioration in asset quality, Moody's needed to assess whether the Bank's asset quality and liquidity would be preserved before upgrading its rating.

As was the case with the Bank's SDR 1.0 billion in authorized and subscribed capital at the time of its founding in 1999, 30% of the additional subscribed capital will be paid-in over the coming eight years. "Such a high share of paid-in capital is unusual by the standards of most other multilateral development banks (MDBs)," says Anthony Thomas, Vice-President in Moody's Sovereign Risk Group. "This is therefore an important support for the Bank's rating, particularly in light of the low average rating of its shareholders (Ba1)."

In Moody's view, the capital increase also signifies the strength of shareholders' commitment to the BSTDB, which is the financial pillar of the Black Sea Economic Co-operation Organization.

With the growth outlook in the region now improving, the ability of BSTDB to withstand the impact of the crisis seems assured. "BSTDB's asset quality recorded very limited deterioration and the Bank has remained profitable throughout the crisis," says Mr. Thomas. "The Bank's adoption of MDB best practices in asset and liquidity management is credited for this performance."

POTENTIAL TRIGGERS FOR AN UPGRADE/DOWNGRADE AND METHODOLOGIES

BSTDB has expressed interest in attracting a Aaa-rated shareholder. According to the Constitutive Agreement establishing the Bank, members can either be States within the Black Sea Economic Co-operation Area or other multilateral banks and financial institutions. Given their current ratings, Moody's says none of the member governments is likely to be upgraded to Aaa (or even Aa) for the foreseeable future. "A new Aaa shareholder, if secured, is more likely to be a multilateral bank or financial institution," says the analyst. "Such a shareholder would improve the Bank's capital ratios and be supportive of an upgrade."

BSTDB's rating could be downgraded if a significant rise in non-performing loans were to occur that in turn leads to losses that would impair liquidity and/or a reduction in member support. However, BSTDB's preferred creditor status is expected to prove effective, such as has happened with other MDBs at times of crisis.

Black Sea Trade and Development Bank's ratings were assigned by evaluating factors relevant to the specific characteristics of multilateral development banks, reflecting in particular their dual nature as financial institutions and vehicles of international public policy. MDB rating factors include an assessment of the stand-alone financial strength of the institution (in particular its level of capitalization, liquidity, its risk management framework and the quality of its assets), as well as the multiple forms of support (including in contractual form) provided by the governments that compose its membership. These attributes were compared against other issuers both within and outside of the BSTDB's peer group of multilateral development banks, and its ratings are believed to be similar to other issuers of similar credit risk.

Moody's last rating action was taken on 11 December 2007 when a positive outlook was assigned to its Baa1 rating.

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